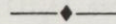


INTERSTATE
DEPARTMENT STORES, INC.
NEW YORK, N. Y.

ANNUAL REPORT
YEAR ENDING
JANUARY 31, 1941

DIRECTORS

ROBERT S. ADLER	R. C. KRAMER
REAGAN P. CONNALLY	WILL I LEVY
CHRISTIAN E. DAHLGREN	ALBERT PARKER
CHARLES E. FEDERMAN	HAROLD J. SZOLD
PAOLINO GERLI	BENJAMIN VOLEN



OFFICERS

<i>President</i>	REAGAN P. CONNALLY
<i>Chairman of the Board</i>	R. C. KRAMER
<i>Secretary</i>	ALBERT PARKER
<i>Treasurer</i>	WILLIAM ONASCH
<i>Assistant Treasurer and Assistant Secretary</i>	OSCAR C. WEITZBERG
<i>Assistant Secretary</i>	FREDERICK CORD

APRIL 15, 1941.

TO THE STOCKHOLDERS OF

INTERSTATE DEPARTMENT STORES, INC.

There are submitted herewith the Consolidated Financial Statements of the Company and its subsidiaries as of January 31, 1941 and for the fiscal year then ended.

The consolidated net profit after all charges and provisions for Federal Income and Excess-Profits Taxes amounted to \$534,440, compared with a profit of \$320,970 in the preceding year. The net profit after payment of Preferred dividends was equivalent to \$1.28 per share on 301,846 shares of Common Stock, compared with earnings of 55¢ per share on the same number of shares in the previous year.

The increase of \$213,469 in net profit was after increasing our provision for Federal Income and Excess-Profits Taxes \$90,182 over the preceding year, and absorbing all losses incurred in the liquidation of the store in Syracuse, New York, which had been unprofitable since its inception.

Sales for the year ended January 31, 1941 were \$25,110,191 compared with \$24,266,250 last year in the same number of stores.

The Consolidated Balance Sheet shows the ratio of current assets to current liabilities as of January 31, 1941 to be 4.77 to 1 compared with 4.98 to 1 on January 31, 1940. The net working capital as of January 31, 1941 was \$4,447,160 compared to \$4,366,583 in the previous year.

Inventories including merchandise in transit were \$3,311,758 or \$245,129 less than a year ago. The inventories are in satisfactory condition, and adequate reserves have been provided for merchandise over one year old.

Customers' accounts receivable, after reserves, were \$1,495,091 on January 31, 1941, as compared to \$1,134,202 on January 31, 1940, an increase of \$360,888. These accounts are in good current condition, and reserves were increased during the year to provide for the larger balances outstanding. The policy of Coupon Book Credit Selling has been extended and is now available to customers in most of our stores.

1,151 shares of Preferred Stock were purchased by the Company during the fiscal year at an average cost of \$85.84 per share. These purchases completed the acquisition of the number of shares of its Preferred Stock which the Company was obligated to acquire for retirement during 1940 and 1941 in accordance with its charter; and in addition, 21 shares of the 975 shares of the Preferred Stock which the Company is obligated to acquire in 1942.

During the year, over \$175,000 was expended in the modernization of our stores. We moved into a new air-conditioned building, equipped with modern fixtures, in York, Pennsylvania. Complete remodeling jobs were done in Battle Creek, Muncie, Knoxville and Williamsport. Substantial remodeling was also done in Paducah and Davenport, and in Fort Wayne, Indiana the food basement was extensively remodeled. In addition, many departmental improvements were effected throughout other stores.

The regular quarterly dividends on the Preferred Stock were paid during the fiscal year. Quarterly dividends of 15¢ each were paid on October 1, 1940 and January 15, 1941 on the Common Stock. Total dividends paid during the year on the Preferred and Common Stock amounted to \$240,002, leaving a balance of undistributed earnings for the year of \$294,438, which was added to the earned surplus account. A quarterly dividend of 15¢ per share was declared on the Common Stock payable April 15, 1941.

The Company recently negotiated a favorable seven year bank loan to prepay the mortgages on the buildings owned by subsidiaries of the Company and occupied by the Davenport and Peoria stores, resulting in a substantial saving in interest without, however, increasing the annual cash outlay of the Company.

A large share of the improvement in the Company's net profit is due to the splendid cooperation and efforts of our constantly improving organization. Management takes this opportunity to express its appreciation for the excellent work done by the entire organization.

Yours very truly,

REAGAN P. CONNALLY,

President.

INTERSTATE DEPARTMENT

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

ASSETS			
	As At January 31, 1941	As At January 31, 1940	
CURRENT ASSETS:			
Cash on hand and in banks	\$ 748,222.93	\$ 700,870.38	
Accounts Receivable—Customers:			
Charge accounts	\$ 43,629.86	\$ 51,388.70	
Layaway, Will call and C. O. D. accounts....	287,458.18	264,841.51	
Deferred payment accounts (largely arising from conditional sales contracts under the terms of which approximately \$100,000.00 is not due within one year)	1,302,957.34	940,952.95	
	1,634,045.38	1,257,183.16	
Less: Reserves	138,954.14	122,980.64	
	1,495,091.24	1,134,202.52	
Due from insurance companies, vendors and others	74,774.23	73,746.54	
Less: Reserve	2,000.00	2,000.00	
	72,774.23	71,746.54	1,205,949.06
Merchandise Inventories—at the lower of cost or market:			
Merchandise at stores, based upon the retail method of inventory valuation	2,884,949.42	3,096,415.57	
Merchandise at warehouse	191,406.92	227,185.20	
Merchandise in transit	235,402.11	233,287.27	3,556,888.04
Total Current Assets	5,627,846.85	5,463,707.48	
OTHER ASSETS:			
Deposits in closed banks, less reserve	593.62	1,842.23	
Miscellaneous other assets, including rent deposits, investments, due from landlords, employees, etc., less reserves	45,804.10	46,397.72	49,046.06
			50,888.29
FIXED ASSETS—AT COST:			
Land and buildings	1,200,000.00	1,200,000.00	
Less: Reserve for depreciation	143,248.27	120,119.27	
	1,056,751.73	1,079,880.73	
Alterations and improvements to leased premises.	673,934.41	629,405.46	
Less: Reserve for depreciation	347,295.93	302,740.26	
	326,638.48	326,665.20	
Furniture and fixtures	935,749.27	921,502.66	
Less: Reserve for depreciation	416,760.04	449,637.43	
	518,989.23	471,865.23	
Delivery equipment	7,651.28	11,452.47	
Less: Reserve for depreciation	3,422.49	7,535.48	
	4,228.79	3,916.99	1,882,328.15
LEASEHOLDS	286,329.00	275,600.30	
Less: Reserve for amortization	140,984.39	127,689.01	147,911.29
DEFERRED CHARGES:			
Prepaid expenses, unexpired insurance, etc.	256,058.36	221,569.57	
Supplies	60,422.35	64,478.32	286,047.89
	316,480.71	286,047.89	
	\$8,042,678.12	\$7,830,883.10	

The Notes to Accounts are an integral part of this statement.

NOTES TO ACCOUNTS

NOTE A—After the close of the fiscal year and on February 26, 1941, a subsidiary borrowed the sum of \$225,000 from a bank, payable \$7,875 on June 1, 1941 and quarterly thereafter until March 1, 1946 and \$8,437.50 on June 1, 1946 and quarterly thereafter until March 1, 1948. On March 1, 1941 the proceeds were used to pay and redeem all the First Mortgage 5% Gold Bonds, Series A, which were outstanding and not due as at January 31, 1941 in the principal amount of \$209,000. The premium paid to bondholders on the redemption of the bonds amounted to \$9,750.

The financial statements are subject to the final audit.

MENT STORES, INC.

RY COMPANIES

HEET AS AT JANUARY 31, 1941

LIABILITIES

CURRENT LIABILITIES:

	As At January 31, 1941	As At January 31, 1940
Accounts payable—trade	\$ 339,610.29	\$ 431,947.41
Accounts payable for merchandise in transit	220,453.79	233,287.27
Accrued salaries and expenses	222,455.33	146,643.75
Accrued Federal, State and other taxes	319,926.29	224,048.03
Sundry creditors and accruals	22,523.12	22,490.10
Dividends declared on preferred stock, payable February 1, 1941	36,363.25	
Current installments on mortgages payable and accrued interest thereon	19,354.17	38,707.77
Total Current Liabilities	1,180,686.24	1,097,124.33
Due to landlord—not current	26,666.68	30,000.01
Notes payable—bank—payable \$9,625.00 on June 1, 1942 and quarterly thereafter to December 1, 1945, and \$10,312.50 from March 1, 1946 to December 1, 1947	226,875.00	
First Mortgage 5% Gold Bonds, Series A, \$15,000.00 due March 1, 1941 and annually there- after to March 1, 1948, and \$90,000.00 due March 1, 1949 (Note A)	\$ 209,000.00	\$ 225,000.00
Less: Current installments included above.	15,000.00	15,000.00
First mortgage payable—payable in monthly in- stallments to 1947		204,935.06
Less: Current installments included above		8,961.25
Second mortgage payable—payable semi-annually to 1947		85,000.00
Less: Current installments included above		7,500.00
Total Liabilities	1,628,227.92	1,610,598.15
Reserves for replacement of fixtures	11,250.00	13,500.00
Minority interest in subsidiary company	6,067.65	5,289.98
CAPITAL STOCK:		
Preferred Stock 7% Cumulative, par value \$100.00 per share (redeemable and entitled upon liquidation, dissolution or winding up of affairs, whether voluntary or involuntary, to \$110.00 per share or an aggregate of \$2,285,690.00 on January 31, 1941 and accrued dividends)—(Note B)		
Authorized and issued	Shares 24,800	Shares 24,800
Less: Held in treasury for retirement....	4,021	2,870
Outstanding	20,779	21,930
Common Stock, Without Par Value:		
Authorized	320,000	320,000
Issued	308,946	308,946
Less: Reacquired	7,100	7,100
Outstanding	301,846	301,846
SURPLUS:		
Earned surplus—per Statement No. 2	677,813.83	383,375.30
Appropriated surplus—per Statement No. 2...	35,500.00	35,500.00
Capital surplus—per Statement No. 2.....	2,061,167.19	2,044,868.14
	<u>\$8,042,678.12</u>	<u>\$7,830,883.10</u>

statement and must be read in conjunction herewith.

AS AT JANUARY 31, 1941

NOTE B—The Company is obligated to reacquire for retirement by redemption or purchase at least 3% (975 shares) annually, of the largest amount in par value of the Preferred Stock which shall ever have been issued and outstanding. As at January 31, 1941, the Company held 4,021 shares of Preferred Stock in the treasury, of which 4,000 shares fulfill all such requirements for prior years and until December 31, 1941, and 21 shares are applicable to requirements subsequent to such date.

etermination of Federal, State and other taxes.

INTERSTATE DEPARTMENT STORES, INC.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SURPLUS FOR THE YEAR ENDED JANUARY 31, 1941

	<u>January 31, 1941</u>	<u>January 31, 1940</u>
EARNED SURPLUS:		
Balance—January 31, 1940-1939	\$ 383,375.30	\$ 218,067.21
Dividends paid on Preferred Stock—four quarterly dividends	149,448.25	155,662.50
Dividends paid on Common Stock	90,553.80	
Net profit for the year ended January 31, 1941-1940	534,440.58	320,970.59
Balance—January 31, 1941-1940—per Statement No. 1	<u>\$ 677,813.83</u>	<u>\$ 383,375.30</u>
APPROPRIATED SURPLUS:		
Balance—January 31, 1940-1939	\$ 35,500.00	\$ 35,500.00
Balance—January 31, 1941-1940—per Statement No. 1	<u>\$ 35,500.00</u>	<u>\$ 35,500.00</u>
CAPITAL SURPLUS:		
Balance—January 31, 1940-1939	\$2,044,868.14	\$2,026,482.94
Discount on 7% Preferred Stock purchased for redemption (1,151 shares January 31, 1941, 990 shares January 31, 1940)	16,299.05	18,385.20
Balance—January 31, 1941-1940—per Statement No. 1	<u>\$2,061,167.19</u>	<u>\$2,044,868.14</u>

Red figures are designated by italics.

The Notes to Accounts are an integral part of this statement and must be read in conjunction herewith.

INTERSTATE DEPARTMENT STORES, INC.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED JANUARY 31, 1941

	For the Year Ended January 31, 1941		For the Year Ended January 31, 1940	
NET SALES:				
Owned departments	\$22,099,107.98		\$21,375,231.90	
Leased departments	3,352,771.90	\$25,451,879.88	3,345,091.06	\$24,720,322.96
COST OF GOODS SOLD, SELLING, OPERATING, CREDIT AND COLLECTION EXPENSES, net of carrying charges on deferred payment accounts, and ad- ministrative expenses, (including interest on mortgages of store properties, classified as rent)— exclusive of depreciation and amortization.....		24,550,228.67		24,184,019.66
		901,651.21		536,303.30
LESS: Depreciation on buildings, alterations and improvements, fixtures, equip- ment, etc.	166,133.89		163,846.06	
Amortization—leaseholds	13,295.38	179,429.27	12,130.89	175,976.95
		722,221.94		360,326.35
OTHER INCOME:				
Interest and other non-trading income—net..		9,137.49		47,975.45
		713,084.45		408,301.80
Proportion of profit or loss of a subsidiary company applicable to its minority interest		777.67		352.89
NET PROFIT, BEFORE PROVISIONS FOR FEDERAL IN- COME AND EXCESS-PROFITS TAXES		712,306.78		408,654.69
PROVISION FOR FEDERAL INCOME TAXES	162,602.65		87,684.10	
PROVISION FOR FEDERAL EXCESS-PROFITS TAXES..	15,263.55	177,866.20	—	87,684.10
NET PROFIT—Statement No. 2		\$ 534,440.58		\$ 320,970.59

Red figures are designated by italics.

The Notes to Accounts are an integral part of this statement and must be read in conjunction herewith.

ACCOUNTANTS' REPORT

TO THE BOARD OF DIRECTORS,
INTERSTATE DEPARTMENT STORES, INC.,
NEW YORK, N. Y.

We have examined the consolidated balance sheet of Interstate Department Stores, Inc. and subsidiary companies as at January 31, 1941 and the consolidated statements of income and profit and loss and surplus for the year then ended; have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

Our examination of the merchandise inventories included a general review of the inventory procedures and records, including the retail inventory records, and tests to determine the mathematical accuracy of the inventory schedules. In addition, our representatives were present at eight representative stores, which we selected for test purposes to determine that the inventory procedures were carried out effectively and to make tests of the quantities in the inventory. Our examination of the customers' accounts receivable included tests by direct communication with a selected number of customers at eleven of the stores selected by us.

During the year under review the bases of determining the reserves for bad debts and merchandise inventories were modified. The charges to operations computed on the modified bases were, in the aggregate, approximately the same as the amount which would have been computed on the old bases. In our opinion the modifications were proper.

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of income and profit and loss and surplus, together with the Notes to Accounts, present fairly the consolidated position of Interstate Department Stores, Inc. and subsidiary companies at January 31, 1941, and the consolidated results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except as set forth in the preceding paragraph.

New York, N. Y.
March 27, 1941

S. D. LEIDESDORF & Co.

This report is solely for statistical information for stockholders, and is not a representation, prospectus or circular in respect of any stock of any corporation, and is not transmitted in connection with any sale or offer to sell or buy any stock or security now or hereafter to be issued, or with any preliminary negotiation for such sale.